

THE HOSPITAL FEDERAL REIMBURSEMENT ALLOWANCE

White paper submitted by the Missouri Hospital Association to the
Missouri Department of Economic Development
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Missouri's Federal Reimbursement Allowance program directly benefits Missouri's economic and health care infrastructure. This highly successful public/private partnership serves as a model of vision, creativity and cooperation.

Nearly 20 years ago, Missouri's health care and governmental leaders were facing significant budgetary challenges. In response, the FRA program began in 1991 as a voluntary program under Gov. John Ashcroft's administration and was expanded and enacted into law as a provider tax in 1992. Hospitals provide funds to the state, and Missouri's Medicaid program (now called MO HealthNet) uses these funds to earn federal matching dollars.

FRA Assessment Compared to State Sources of General Revenue

Revenue Producer	Revenue Fiscal Year 2009
Individual Income Tax	\$5,935.2 million
Sales and Use Tax	\$1,883.7 million
Hospital FRA	\$847.2 million
Corporate Income Tax	\$528.3 million
County Foreign Insurance Tax	\$203.8 million
Inheritance/Estate Tax	\$3.1 million

Throughout the highs and lows of the state's financial condition, the program has evolved to maximize federal matching dollars and reduce the burden of MO HealthNet on state general revenue. As shown in the table, the FRA is a major source of revenue to the state, surpassing all but the two largest sources of general revenue. Today, it is a major funding stream for MO HealthNet. This releases traditional general revenue to be used for other state priorities.

The FRA is used to generate federal matching funds for the Medicaid program. The \$847.2 million in FRA funds in fiscal year 2009 generated \$1.522 billion in federal funds, producing a total of \$2.415 billion to support the state's Medicaid spending.

Federal Share — In most Medicaid eligibility categories, the federal government funds nearly 65 percent of the cost of coverage. However, in the case of the Children's Health Insurance Program, the federal government provides 73 percent of the funding.

State Share — The state is responsible for funding the other 27 percent to 35 percent of Medicaid costs not covered by the federal government. However, because of funding from provider taxes and other revenue sources, MO HealthNet spending does not need to be funded entirely by general revenue.

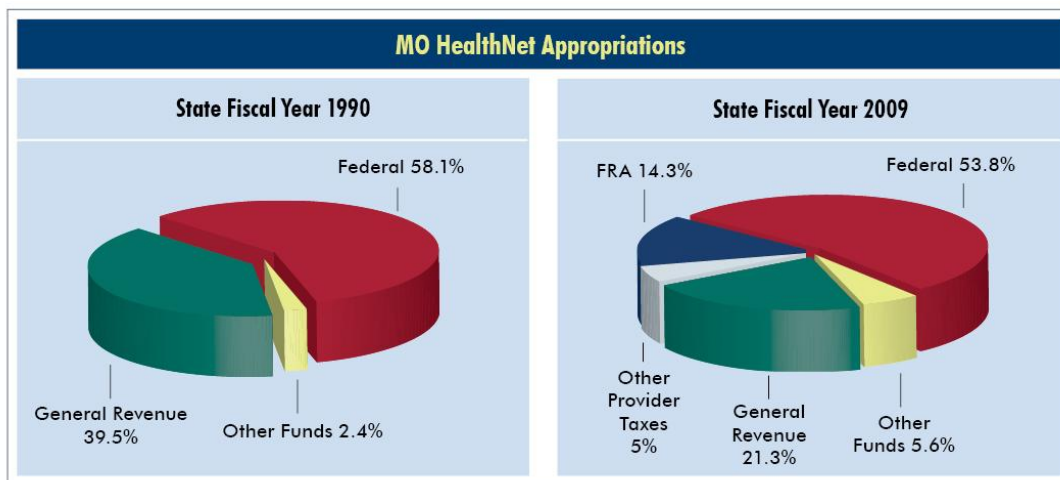
Other Revenue Sources — Because Missouri has pursued provider taxes aggressively to fund its program costs, nearly half of the state's share of the cost of the Medicaid program comes from these provider taxes.

Limited State Investment — Only 21 percent of the cost of the Medicaid program comes from general revenue funds.

The following key components have contributed to the FRA's success for nearly 20 years.

- broad bipartisan support throughout five administrations
- a successful partnership between the state and hospitals
- explicit endorsement in federal law and by the Centers for Medicare & Medicaid Services through the Missouri Partnership Agreement
- a stable funding stream for the state in tough economic times
- a successful model replicated in other programs and states

As illustrated in the following charts, before the inception of the FRA, 39.5 percent of the state's Medicaid spending was paid from the state's general revenue fund. In SFY 2009, that percentage was 21.6 percent. As a result of the FRA, vast amounts of general revenue have been made available over the years to be spent on other state priorities.



It may be useful to examine the economic benefits of the MO HealthNet program. Any Missouri spending on MO HealthNet or the Children's Health Insurance Program brings additional federal matching funds into the state. These additional federal funds trigger successive amounts of spending throughout the state and local economies that increase the overall economic activity. Federal matching funds, therefore, have a measurable impact on state business activity, jobs and wages, as well as state and local tax revenues.

MO HealthNet payments go to hospitals, nursing homes, physicians and other health-related businesses. These funds then are used to purchase goods and services and to support the income of workers in health-related occupations. Importantly, the health care sector – and especially hospitals – has been one of the only employment sectors in the state that has continued to hire new workers during the current economic downturn. These dollars generate successive rounds of earnings and purchases that continue to circulate throughout Missouri's economy.

Any reduction in state spending for MO HealthNet decreases federal matching funds coming to Missouri communities. This, in turn, diminishes MO HealthNet's contribution to business activity, jobs and wages in each county of the state.

When state government cuts Medicaid spending, the Medicaid cuts go much deeper than projected state savings. When state spending is reduced, federal Medicaid matching funds also are lost. Providers must lose more than \$50 million in total payments for the state to save \$20 million. And, even then, the \$20 million is not pure general revenue savings because about half of the state's share of Medicaid spending is funded by the hospital Federal Reimbursement Allowance and other provider taxes. This ultimately increases the pressure on

Medicaid providers to charge insured patients more to offset some of the losses incurred by the spending reductions.

The FRA is an essential component of the state's budget. The state laws authorizing the FRA come up for renewal in the General Assembly in 2011. State policymakers should collaborate with hospitals to preserve the program's benefits and ensure that it remains a viable and sustainable part of the state Medicaid program. In addition, hospitals must prepare for the large numbers of newly insured that will be accessing the health care system in 2014. To do this, they must have the economic viability to continue their significant investment in capital and job creation. Without the FRA, Missouri's health care infrastructure is not sustainable.